

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4958-02
Bill No.: HCS for HB 1605
Subject: Tax Credits; Taxation and Revenue - Income, Revenue, Department
Type: Original
Date: March 24, 2016

Bill Summary: Authorizes an earned income tax credit.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue		(\$98,972,529)	(\$147,249,000)
Total Estimated Net Effect on General Revenue	\$0	(\$98,972,529)	(\$147,249,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on FTE	0	0	0

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Oversight notes the current version of the proposal changes the effective date to tax years beginning on or after January 1, 2017 while the prior version was effective for tax years beginning on or after January 1, 2015. Further, the current version introduces a graduation of the credit.

Officials from the **Office of Administration - Division of Budget and Planning (B&P)** assume this proposal would authorize a non-refundable Earned Income Tax Credit (EITC) to resident taxpayers based on income and number of dependents. The credit phases-in over a period of two years (tax years 2017 and 2018).

B&P used tax year 2013 data (the most recent year available) to estimate a non-refundable earned income tax credit which would reduce Total State Revenue and General Revenue by \$156.8 million in fiscal year 2018 and \$165.0 million in fiscal year 2019. and thereafter.

Officials from the **Department of Revenue (DOR)** assume this proposal creates the Missouri Earned Income Tax Credit Act beginning January 1, 2017. Individuals could receive a non-refundable credit against taxes due under Chapter 143, RSMo.

Fiscal impact

DOR officials noted that in 2013, approximately 876,000 tax returns would have met the various qualifications of this legislation. Based upon the total tax liability of the qualified taxpayers, DOR estimates a total reduction in tax revenue of \$156.8 million in the first year the credit is authorized and \$165.0 million in each year thereafter.

Administrative Impact

DOR officials assume the Personal Tax section would require four (4) Temporary Tax Employees, five (5) Revenue Processing Technicians I, and two (2) Management Analyst Specialist II.

The **DOR** estimate of administrative cost for this proposal including four additional temporary employees and seven additional full time employees with related benefits, equipment, and expense total \$337,779 for FY 2017, \$338,842 for FY 2018, and \$341,761 for FY 2019.

ASSUMPTION (continued)

Oversight notes this proposal would implement a state tax EITC program. Oversight assumes this proposal not have a significant impact on the number of returns filed. Oversight also notes a high percentage of income tax returns are prepared online, electronically, or by paid preparers, and assumes there would not be a significant number of additional errors resulting from the changes in this proposal.

Oversight therefore assumes existing DOR staffing would be adequate to implement this proposal. If unanticipated additional costs are incurred or if multiple proposals are implemented that increase DOR costs or the workload for DOR employees, resources could be requested through the budget process.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$108,529 based on 835 hours of programming to make changes to DOR systems.

Oversight will include the DOR estimate of IT cost in this fiscal note.

Officials from the **University of Missouri - Economic and Policy Analysis Research Center (EPARC)** estimated the fiscal impact of this proposal by preparing a simulation of Net Tax Due using existing provisions and the most recent data from 2014 as a baseline. A second simulation using the same data and existing provisions, with the addition of the proposed tax credit indicated Net Tax Due would be reduced for the first year of the tax credit implementation from the baseline of \$5,574.541 million to \$5,475.677 million, a reduction of \$98.864 million.

EPARC officials ran an additional simulation to determine the reduction for the second and succeeding years. The Net Tax Due would be reduced for the second and succeeding years from the baseline of \$5,574.541 million to \$5,427.292 million, a reduction of \$147.249 million.

Oversight will use the EPARC estimate of fiscal impact for this proposal.

Oversight is aware that taxpayers could adjust their estimated tax payments or withholding in anticipation of reduced taxes; however, for fiscal note purposes, Oversight will indicate the entire first year fiscal impact for this proposal in the fiscal year in which the first tax returns affected by the proposal would be filed.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State (SOS)** stated many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. SOS officials noted their office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session.

SOS officials assumed the fiscal impact of this proposal for Administrative Rules is less than \$2,500 and recognize this is a small amount, and do not expect additional funding would be required to meet these costs. However, SOS officials also recognize that many such bills may be passed by the General Assembly in a given year and collectively the costs may be greater than our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Joint Committee on Administrative Rules** assume this proposal would have no impact on their organization beyond existing resources.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
GENERAL REVENUE FUND			
<u>Cost - DOR</u>			
Contract Programming	\$0	(\$108,529)	\$0
<u>Revenue reduction</u>			
Earned income tax credit	\$0	(\$98,864,000)	(\$147,249,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$98,972,529)</u>	<u>(\$147,249,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

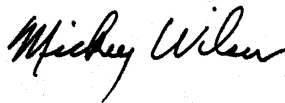
FISCAL DESCRIPTION

This proposal establishes the Missouri Earned Income Tax Credit Act which authorizes, beginning January 1, 2017, an individual income tax credit of up to \$600 for the first tax year and up to \$1,200 for the second and every year thereafter.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration-
Division of Budget and Planning
Department of Revenue
University of Missouri
Economic & Policy Analysis Research Center
Office of the Secretary of State
Joint Committee on Administrative Rules



Mickey Wilson, CPA
Director
March 24, 2016

Ross Strobe
Assistant Director
March 24, 2016